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UTAH DEPARTMENT OF COMMERCE

Division of Securities

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April 28, 2023

David E. Mainzer
Ballard Spahr LLP
2029 Century Park East, Suite 1400
Los Angeles, CA 90067-2915
Via email: mainzerd@ballardspahr.com

Re: Hunter Search Management, LLC / Hunter Search Capital Fund II, LLC

Dear Mr. Mainzer:

The Utah Division of Securities (“Division”) has reviewed your April 14, 2023 request for a no-action letter concerning Hunter Search Management, LLC (“Hunter Search Management”). Your request for relief from the Division is authorized by Section 61-1-25(5) of the Utah Uniform Securities Act (“Act”) and Utah Administrative Code Rule R164-25-5.

Your letter indicates Hunter Search Management is an investment adviser that will manage Hunter Search Capital Fund II, LLC, a Delaware limited liability company and qualifying private fund (“the Fund”) as defined in Rule 203(m)-1 of the Investment Advisers Act of 1940 (“IA Act”). The Fund is eligible for the exclusion from the definition of an investment company under Section 3(c)(1) of the Investment Company Act of 1940, and is only open to persons who qualify as both an “accredited investor” as defined in Regulation D under the Securities Act of 1933 and as a “qualified client” as defined in Rule 205-3 of the IA Act. Hunter Search Management is a Delaware limited liability company that is headquartered in Park City, Utah. The Fund is headquartered in Park City, Utah. As described in your letter, Hunter Search Management does not qualify for an exemption under Utah Administrative Code Rule R164-4-9. However, it would qualify for an exemption under the NASAA Model Rule¹ that provides a licensing exemption for advisers to Section 3(c)(1) private funds as the adviser meets the required criteria and agrees to file required reports with the Division and will pay any filing fee established in the future by the Division for such advisers.

¹ NASAA Registration Exemption for Investment Advisers to Private Funds Model Rule, attached as Exhibit A to your request letter. We note Rule R164-4-9 was promulgated prior to the existence of the NASAA Model Rule, which as your letter indicates has been adopted in some form in more than 38 U.S. jurisdictions.

April 28, 2023

Based upon the representations in your letter, we will not recommend any enforcement or administrative disciplinary action should Hunter Search Management proceed with its business in Utah as an exempt reporting adviser as set forth in the letter. As this recommendation is based upon the representations made to the Division, any different facts or conditions of a material nature might require a different conclusion. Furthermore, the relief granted herein is expressly limited to Hunter Search Management and will have no precedential effect whatsoever for any other party. This response does not purport to express any legal conclusions regarding the applicability of statutory or regulatory provisions of federal or state securities laws to the questions presented. It merely expresses the position of the Division staff on enforcement or administrative actions. Finally, the issuance of a no-action letter does not absolve any party from complying with the antifraud provisions contained in Section 61-1-1 of the Act.

Very truly yours,

UTAH DIVISION OF SECURITIES

Charles M. Lyons

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Securities Analyst

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April 14, 2023

Mr. Jason Sterzer
Securities Director
Department of Commerce
Utah Division of Securities
PO Box 146760
Salt Lake City, UT 84114-6760

Re: Hunter Search Capital Fund II, LLC – No-Action Request Letter

On behalf of Hunter Search Management, LLC (“Hunter Search Management”), we respectfully request a No Action Letter from the Utah Division of Securities (the “Division”) that would allow Hunter Search Management, an investment adviser that qualifies for a registration exemption based on the North American Securities Administrators Association (“NASAA”) Registration Exemption for Investment Advisers to Private Funds Model Rule (the “Model Rule”), to file as an exempt reporting adviser in Utah. As described further herein, when it commences operations as an investment adviser, Hunter Search Management will meet the investment adviser licensing exemption requirements under the Model Rule and, therefore, exempting Hunter Search Management from investment adviser licensing is in the public interest.

Background Information

Hunter Search Management is an investment adviser that intends to manage Hunter Search Capital Fund II, LLC a Delaware limited liability company (the “Fund”) and a qualifying private fund as defined in Rule 203(m)-1 of the Investment Advisers Act of 1940, as amended (the “Investment Advisers Act”). The Fund is eligible for exclusion from the definition of an investment company under Section 3(c)(1) of the Investment Company Act of 1940, as amended (the “Investment Company Act”). The Fund is only open to persons who qualify as both an “accredited investor”, as defined in Regulation D under the Securities Act of 1933, as amended (the “Securities Act”), and a “qualified client”, as defined in Rule 205-3 of the Investment Advisers Act. Hunter Search Management is a Delaware limited liability company headquartered in Park City, Utah. The Fund is headquartered in Park City, Utah.

Utah Administrative Code Section R164-4-9(A)(2) “provides exemptions from the licensing requirements of the [Utah Uniform Securities] Act for investment advisers and investment adviser representatives who meet specified criteria.” The exemption under Utah

Administrative Code Section R164-4-9(D) only applies to “a private fund that regularly makes equity investments in companies” when certain specified conditions are met. These specified conditions are designed for venture capital funds that usually take an active role with the companies in which those venture capital funds invest. While the Fund may occasionally take an active role with the companies in which it invests, the Fund would generally be considered a passive investor for purposes of the exemption in Utah Administrative Code Section R164-4-9(A)(2). Therefore, Hunter Search Management would not qualify for the exemption for investment advice to certain private funds who pursue a venture capital strategy.

While Hunter Search Management does not qualify for the narrow exemption outlined in Utah Administrative Code Section R164-4-9(D), which is designed specifically for the venture capital funds that take an active management role in the target companies, Hunter Search Management would qualify for the much broader exemption under the Model Rule which was adopted on December 16, 2011, and Amended on October 8, 2013. (Attached as Exhibit A). The Model Rule gives a licensing exemption for advisers to Section 3(c)(1) private funds if the private fund adviser satisfies each of the following conditions:

- (1) Neither the private fund adviser nor any of its advisory affiliates are subject to an event that would disqualify an issuer under Rule 506(d)(1) of SEC Regulation D, 17 C.F.R. § 230.506(d)(1);
- (2) The private fund adviser files with the state each report and amendment thereto that an exempt reporting adviser is required to file with the Securities and Exchange Commission pursuant to SEC Rule 204-4, 17 C.F.R. § 275.204-4; and
- (3) The private fund adviser pays the fees specified in Section XXX [410 of USA 2002].

See Exhibit A, at (I)(b).

Neither Hunter Search Management nor any of its advisory affiliates are subject to an event that would disqualify an issuer under Rule 506(d)(1) of SEC Regulation D, 17 C.F.R. § 230.506(d)(1). Hunter Search Management will file the reports required to be filed by exempt reporting advisers and pay any filing fee established by the Division pursuant to SEC Rule 204-4, 17 C.F.R. § 275.204-4.

Under the Model Rule, in addition to the requirements listed above, a private fund adviser who advises at least one Section 3(c)(1) fund that is not a venture capital fund must also comply with the following requirements:

- (1) The private fund adviser shall advise only those 3(c)(1) funds (other than venture capital funds) whose outstanding securities (other than short-term paper) are beneficially owned entirely by persons who, after deducting the value of the primary residence from the person’s net worth, would each meet the definition of a qualified client in SEC Rule 205-3, 17 C.F.R. § 275.205-3, at the time the securities are purchased from the issuer;

- (2) At the time of purchase, the private fund adviser shall disclose the following in writing to each beneficial owner of a 3(c)(1) fund that is not a venture capital fund: (A) All services, if any, to be provided to individual beneficial owners; (B) all duties, if any, the investment adviser owes to the beneficial owners; and (C) any other material information affecting the rights or responsibilities of the beneficial owners; and
- (3) The private fund adviser shall obtain on an annual basis audited financial statements of each 3(c)(1) fund that is not a venture capital fund, and shall deliver a copy of such audited financial statements to each beneficial owner of the fund.

See Exhibit A, at (I)(c).

The Fund has not yet accepted any investors, and when it does, will only allow investors who meet the definition of an “accredited investor” as defined in Regulation D under the Securities Act and a “qualified client” as defined in Rule 205-3 of the Investment Advisers Act. Hunter Search Management will continue to provide the required information regarding services, duties, rights and responsibilities to the beneficial owners of the Fund at the time of purchase. Hunter Search Management will provide audited financial statements to each beneficial owner of the Fund on an annual basis. Accordingly, Hunter Search Management will meet all the requirements of the registration exemption for private fund advisers under the Model Rule.

Basis for Relief

Hunter Search Management qualifies for the registration exemption for private fund advisers under the Model Rule. The Model Rule, or a variation thereof which grants a similar exemption for a private fund adviser, has been adopted in at least 38 U.S. jurisdictions, meaning that private fund advisers similar or identical to Hunter Search Management are exempt from the registration requirements in a clear majority of jurisdictions in the United States. Further, the Division has granted similar relief to at least one similarly-situated adviser before (*See Powell Anderson Capital Partners LLC, Utah Division of Securities No Action Letter, October 16, 2019*).

Finally, we believe that exempting Hunter Search Management from the registration requirements would pose no risk to the beneficial owners of the Fund. Those beneficial owners will meet the SEC standards for investment sophistication and experience as both accredited investors and qualified clients. Hunter Search Management will provide the beneficial owners of the Fund with all of the material information necessary to evaluate the risks and merits of investing in the Fund and will provide annual filings to the SEC and the Utah Division of Securities. Given these facts, Hunter Search Management respectfully requests that the Division exempt it from the investment adviser licensing requirements of Utah Uniform Securities Act.

If you have questions regarding this request or require additional information, please do not hesitate to contact me. I look forward to your response.

Re: Hunter Search Capital Fund II, LLC – No-Action Request Letter
April 14, 2023
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Very truly yours,

David E. Mainzer

DEM/rlc

EXHIBIT A

NASAA Registration Exemption for Investment Advisers to Private Funds Model Rule
Adopted December 16, 2011; Amended October 08, 2013¹

I. TEXT OF MODEL RULE

Rule XXX Registration exemption for investment advisers to private funds.

(a) ***Definitions.*** For purposes of this regulation, the following definitions shall apply:

(1) “Value of primary residence” means the fair market value of a person's primary residence, subtracted by the amount of debt secured by the property up to its fair market value.

(2) “Private fund adviser” means an investment adviser who provides advice solely to one or more qualifying private funds.

(3) “Qualifying private fund” means a private fund that meets the definition of a qualifying private fund in SEC Rule 203(m)-1, 17 C.F.R. 275.203(m)-1.

(4) “3(c)(1) fund” means a qualifying private fund that is eligible for the exclusion from the definition of an investment company under section 3(c)(1) of the Investment Company Act of 1940, 15 U.S.C. 80a-3(c)(1).

(5) “Venture capital fund” means a private fund that meets the definition of a venture capital fund in SEC Rule 203(1)-1, 17 C.F.R. § 275.203(1)-1.

(b) ***Exemption for private fund advisers.*** Subject to the additional requirements of paragraph (c) below, a private fund adviser shall be exempt from the registration requirements of Section XXX [403 of USA 2002] if the private fund adviser satisfies each of the following conditions:

(1) neither the private fund adviser nor any of its advisory affiliates are subject to an event that would disqualify an issuer under Rule 506(d)(1) of SEC Regulation D, 17 C.F.R. § 230.506(d)(1);

(2) the private fund adviser files with the state each report and amendment thereto that an exempt reporting adviser is required to file with the Securities and Exchange Commission pursuant to SEC Rule 204-4, 17 C.F.R. § 275.204-4; and

(3) the private fund adviser pays the fees specified in Section XXX [410 of USA 2002].

(c) ***Additional requirements for private fund advisers to certain 3(c)(1) funds.*** In order to qualify for the exemption described in paragraph (b) of this regulation, a private fund adviser who advises at least one (3)(c)(1) fund that is not a venture capital fund shall, in addition to satisfying each of the conditions specified in paragraphs (b)(1) through (b)(3), comply with the following requirements:

¹ *Amendments Adopted at NASAA's Annual Conference (Salt Lake City, UT)*

(1) The private fund adviser shall advise only those 3(c)(1) funds (other than venture capital funds) whose outstanding securities (other than short-term paper) are beneficially owned entirely by persons who, after deducting the value of the primary residence from the person's net worth, would each meet the definition of a qualified client in SEC Rule 205-3, 17 C.F.R. § 275.205-3, at the time the securities are purchased from the issuer;

(2) At the time of purchase, the private fund adviser shall disclose the following in writing to each beneficial owner of a 3(c)(1) fund that is not a venture capital fund:

(A) all services, if any, to be provided to individual beneficial owners;

(B) all duties, if any, the investment adviser owes to the beneficial owners;
and

(C) any other material information affecting the rights or responsibilities of the beneficial owners.

(3) The private fund adviser shall obtain on an annual basis audited financial statements of each 3(c)(1) fund that is not a venture capital fund, and shall deliver a copy of such audited financial statements to each beneficial owner of the fund.

(d) ***Federal covered investment advisers.*** If a private fund adviser is registered with the Securities and Exchange Commission, the adviser shall not be eligible for this exemption and shall comply with the state notice filing requirements applicable to federal covered investment advisers in Section XXX [405 of USA 2002].

(e) ***Investment adviser representatives.*** A person is exempt from the registration requirements of Section XXX [404 of USA 2002] if he or she is employed by or associated with an investment adviser that is exempt from registration in this state pursuant to this regulation and does not otherwise act as an investment adviser representative.

(f) ***Electronic filing.*** The report filings described in paragraph (b)(2) above shall be made electronically through the IARD. A report shall be deemed filed when the report and the fee required by Section XXX [410 of USA 2002] are filed and accepted by the IARD on the state's behalf.

(g) ***Transition.*** An investment adviser who becomes ineligible for the exemption provided by this rule must comply with all applicable laws and rules requiring registration or notice filing within ninety (90) days from the date the investment adviser's eligibility for this exemption ceases.

(h) ***Waiver Authority with Respect to Statutory Disqualification.*** Paragraph (b)(1) shall not apply upon a showing of good cause and without prejudice to any other action of the [state securities regulator], if the [Administrator] determines that it is not necessary under the circumstances that an exemption be denied.

(i) *[Grandfathering for investment advisers to 3(c)(1) funds with non-qualified clients. An investment adviser to a 3(c)(1) fund (other than a venture capital fund) that has one or more beneficial owners who are not qualified clients as described in subparagraph (c)(1) is eligible for the exemption contained in paragraph (b) of this regulation if the following conditions are satisfied:*

(1) the subject fund existed prior to the effective date of this regulation;

(2) as of the effective date of this regulation, the subject fund ceases to accept beneficial owners who are not qualified clients, as described in subparagraph (c)(1) of this regulation;

(3) the investment adviser discloses in writing the information described in paragraph (c)(2) to all beneficial owners of the fund; and

(4) as of the effective date of this regulation, the investment adviser delivers audited financial statements as required by paragraph (c)(3).]

II. COMMENTARY

(a) Section (a). Section (a) defines key terms in the model rule. The definitions are structured such that the types of private funds covered under the rule will include funds excluded from the definition of investment company under Sections 3(c)(1) and 3(c)(7) of the Investment Company Act, along with other private funds that would satisfy the statutory requirements found in these exclusions.

(b) Section (b). Section (b) explains that in order to claim the exemption from registration, the adviser and its affiliates must not be subject to a "bad boy" disqualification. This section of the rule also explains that the exemption is contingent upon the adviser filing a report with the state securities administrator. This report is identical to the one required by the SEC for advisers to venture capital funds and private funds with less than \$150 million in assets under management. Changes to Form ADV and to LARD have been implemented that will accommodate the filing of the report with state regulators. The report will consist of the following items on Part 1A of Form ADV: Items 1 (Identifying Information), 2.B. (SEC Reporting by Exempt Reporting Advisers), 3 (Form of Organization), 6 (Other Business Activities), 7 (Financial Industry Affiliations and Private Fund Reporting), 10 (Control Persons), and 11 (Disclosure Information). In addition, the corresponding sections of Schedules A, B, C, and D must be completed.

(c) Section (c). Section (c) and its subparts place additional conditions upon advisers to 3(c)(1) funds. Specifically, in order to qualify for the exemption from investment adviser registration, the 3(c)(1) fund must be comprised entirely of "qualified clients" under SEC Rule 205-3. This means that individual investors must have either \$1 million in investments managed by the adviser or at least \$2 million in net worth. The model rule states that the value of the primary residence is not included in calculating net worth. The value of the primary residence will be an estimate of the fair market value made at the time the net worth calculation is conducted. Section (c) also requires the adviser to deliver annual audited financial statements to the investors in the fund, and it requires the adviser to make other specific disclosures to those investors.

(d) Section (d). This section simply notes that advisers registered with the SEC are not eligible for the exemption. They are treated the same as other federal covered advisers.

(e) Section (e). The rule establishes an exemption from registration for investment advisers. Therefore, this section explains that the investment adviser representatives employed by the advisers would not be required to register.

(f) Section (f). Section (f) requires the reports filed by the advisers to be filed with the state through IARD. The rule recognizes that a state may charge a fee for this report, but in most instances a statutory change would likely be required to implement the fee.

(g) Section (g). When an exempt reporting adviser loses the exemption by, for instance, adding a client that does not meet the financial requirements under the rule, the adviser would be required to register. This paragraph gives the adviser 90 days in which to complete that registration.

(h) Section (h). Section (h) is an optional "grandfathering" provision that would allow advisers to private funds currently exempt under state law to remain exempt provided that the adviser files the reports required under the rule, does not accept new investors that will not meet the financial requirements imposed by the rule, and provides the required disclosures to the investors.